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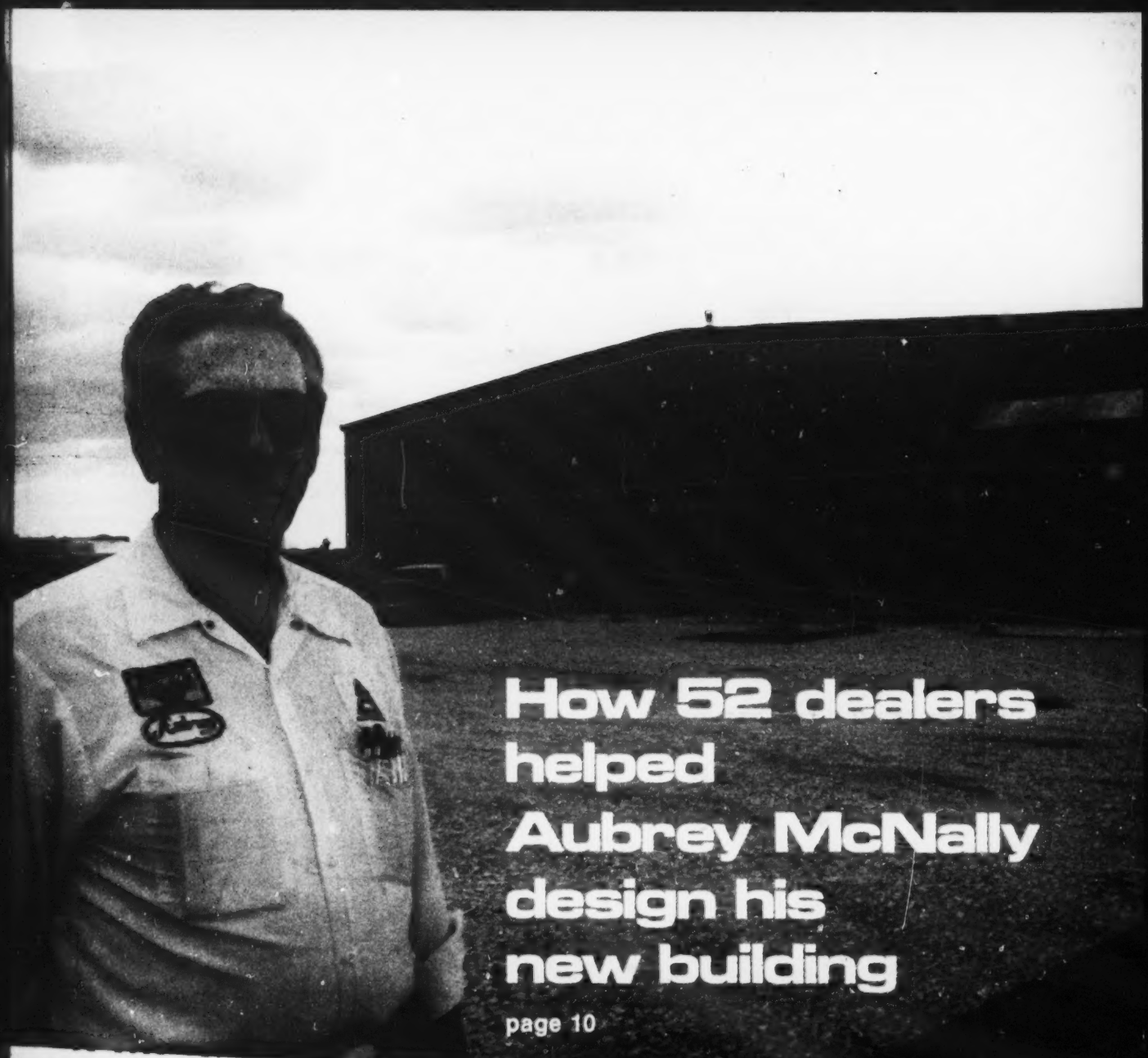

How 52 dealers helped Aubrey McNally design his new building

page 10

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Implement & Tractor
The Business Magazine of the Farm and Industrial Equipment Industry

in this issue...

10: How 52 Dealers Helped Design a New Facility. When Aubrey McNally, a long-time Allis-Chalmers dealer, began planning a new facility, he surveyed other dealers and his employees for practical ideas and features.

14: Dealer Chooses Energy Efficient Construction. Dealer Larry Reefman chose a building system utilizing pneumatically placed concrete over an insulating core for his new farm equipment facility.

18: Don't Sell Assets—Sell Income Potential. Donald Koenig, marketing consultant and business broker, offers some guidance to dealers preparing to sell their businesses. Part 2 of "Selling the Business."

22: Inflation and the Value of Used Equipment. Purdue U. and U. of Wisconsin studies deal with depreciation factors in the face of soaring prices.

34: What Will Be the Best Use for Available Water? Water scarcities are demanding and will demand some tough decisions. Here's a look at just one of the ramifications of the problem.

On the cover... Dealer Aubrey McNally stands in front of his new building in McPherson, Kan. Workmen were putting a roof on the front, and paving and landscaping remained to be completed when this photo was taken.

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what's ahead...

I&T SINCE 1886

June 7, 1981

IT'S PRETTY EXCITING TO SEE A MONTHLY INCREASE IN TRACTOR SALES, as presented by the April flash report of the Farm & Industrial Equipment Institute, until one recalls that this year's April improvement in tractor sales of 14 per cent relates to what happened in April, 1980, when farm tractor sales fell off 47 per cent from the 1979 level of activity. The flash report:

	Unit Retail Sales					
	April			January-April		
	1981	1980	Pct. Change	1981	1980	Pct. Change
Farm Wheel Tractors:						
2-wheel drive						
40-100 HP	6,197	5,398	+14.8	17,473	18,401	- 5.0
Over 100 HP	4,854	4,133	+17.4	13,987	16,689	-16.2
Total 2-wheel dr.	11,051	9,531	+15.9	31,460	35,090	-10.3
4-wheel drive	1,094	1,142	- 4.2	3,411	3,507	- 2.7
Total Tractors	12,145	10,673	+13.8	34,871	38,597	- 9.7
Combines (S-P)	920	1,006	- 8.5	4,739	4,656	+ 1.8
Balers*	563	820	-31.3	2,031	2,152	- 5.6
Forage Harvesters**	272	520	-47.7	994	1,520	-34.6
Mower-Conditioners	862	1,060	-18.7	2,944	3,238	- 9.1

*Bales under 200 lbs. **Shear-bar type.

CANADIAN RETAIL SALES of farm equipment continued strong through the first quarter of 1981, according to a flash report by the Canadian Farm & Industrial Equipment Institute. Farm wheel tractors were up 5.1 per cent to 5,014 units (up 5.6 per cent in March to 1,917). Combines were up 13 per cent to 534 units (up 13.2 per cent in March to 172). Conventional hay balers rose 15 per cent to 294 units (24 per cent more for March at 118 units). Mower-conditioners jumped 30 per cent to 350 units (up 26 per cent in March to 161). Why the difference between the strong performance in Canada in the first quarter and the weak sales picture in the U.S. during the same period, with tractor volume off 16 per cent?

According to Robert Mercer, editor of a couple of Canadian agriculture newsletters, farmers in Western Canada know they are going to get some good prices for their grain. "The bins are empty," he said, and they have cash in their pockets. Bill Armstrong, manager of the Alberta-British Columbia Farm Equipment Dealers Assn., noted that dealers and farmers in the west had a strong year in 1980 and prospects for 1981 look good. "Dealers are going like mad," he added. Glenn Peart, executive director of the Ontario dealer group, said farm prices have been reasonably strong this spring, and farm equipment purchases have been "better than expected."

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What Will Deere Be Doing in 1984?

For inveterate industry watchers, here are some of the more absorbing estimates to come out of a report on Deere & Co. by Sanford C. Bernstein & Co., a New York investment firm. Let's see what you think of them:

In 1980, Deere captured 27 per cent of the U.S. and Canadian farm wheel tractor market, both two- and four-wheel drive, including the under-40-hp units that came in from Japan. Jerry Anderson, the Bernstein analyst who did the study, estimates the horsepower groups thus:

Under 40 hp: Deere's share, 13 per cent; **40-79 hp:** 21 per cent; **80-99 hp:** 45 per cent; **100-139 hp:** 40 per cent; **over 140 hp:** 40 per cent; **total two-wheel-drive tractors:** 27 per cent; **four-wheel-drive tractors:** 26 per cent. Deere is estimated to hold about 28 per cent of the market in the U.S. and 21 per cent in Canada.

For 1984, the study estimates that Deere will hold its share of each horsepower segment of the North American market or strengthen itself by a percentage point or two, resulting in a solid 28 per cent of both the two-wheel and four-wheel-drive tractor markets. The 1984 estimate is also for a much stronger year for the industry in unit sales than we had last year—235,000 compared with 190,000 (again, including low-horsepower units from Japan, Canadian sales, etc.).

The Bernstein report estimates that Deere shipped 37,506 units last year from its Waterloo Tractor Works. Here's how it is broken down by model numbers: **2440**—2,060 units; **2640**—2,725 units (both of these models actually originate at Deere's Dubuque Works); **4040**—2,203 units; **4240**—5,722 units; **4440**—12,053 units; **4640**—5,624 units; **4840**—3,196 units; **8440**—1,669 units; **8640**—3,196 units.

In 1984, the Bernstein study estimates, Deere will be shipping 48,175 tractors from Waterloo, including about 110 of a four-wheel drive tractor carrying about 275 pto horsepower.

Shares of market. The study provides an estimate of shares of the U.S. market by each of the major North American companies for 1979. (Having 1980 share estimates would be even more interesting, but would involve the distortions related to International Harvester's six-month strike.) Here are two-wheel-drive tractor share estimates:

Company	40-79 HP	80-99 HP	100 + HP	Total
Allis-Chalmers	2%	2%	2%	6%
J I Case	3	3	2	8
Deere & Co.	14	14	7	35
Ford Tractor	9	2	0	11
Int'l. Harvester	8	7	4	19
Massey-Ferguson	9	1	1	11
White Farm	2	2	1	5
Other	4	1	0	5
Total	51%	32%	17%	100%

Here's how the four-wheel-drive market worked out that year, according to the study: **Allis-Chalmers,** 7 per cent; **Case,** 14 per cent; **Deere,** 29 per cent; **Ford,** 1 per cent; **International Harvester,** 18 per cent; **Massey-Ferguson,** 2 per cent; **White Farm,** 5 per cent; **Versatile,** 8 per cent; **Steiger,** 16 per cent.

Some industry executives we know have seen these figures and agree that they are generally on target, with some exceptions. In the 40-99 hp group, for example, Massey is thought by some to have a broader share of the market.

Combine activity. Jerry Anderson first sets out the changing market mix in North American combine demand, *i.e.,* there is a decline in demand for smaller sizes (FIEI Classes II and III) and a movement toward the larger models (VI and VII). In 1980, North American farmers bought 6,800 Class II and III types, 10,900 Class IVs, 11,600 Class Vs, and 4,300 VIs and VIIs. Total—33,600. By 1984, they'll be taking, the Bernstein report estimates, 5,100 IIs and IIIs; 10,200 IVs, 11,800 Vs, and 8,300 VIs and VIIs.

How much of this business was/will be in rotaries? The study estimates that rotary types, which had 1 per cent of the market in 1976, grew to 17 per cent in 1978 and 30 per cent in 1979, fell back to 25 per cent in 1980 due to the IH strike, and will constitute 43 per cent of the business in 1984.

Here's how the North American combine market shares for 1979 and 1984 are estimated by Bernstein's Anderson:

Company	1979 Share	1984 Share
Deere & Co.	29%	32%
Int'l. Harvester	18	18
Massey-Ferguson	19	18
Allis-Chalmers	19	22
New Holland	9	7
White, others	6	3

The Bernstein study sees Deere keeping its penetration around the 32 per cent level through

(More...)

1984, but more of its share is expected to come from the smaller size classes and less from the larger, higher-ticket classes: In 1979—47 per cent of the VIs and VIIs; in 1984—17 per cent of them.

Market strategy. If the Bernstein/Anderson estimates and projections are on target for combines, why will Deere be sitting tight with its line of conventional combines? Anderson suggests this scenario:

"We are convinced that Deere will introduce a rotary, but not until after 1984, *i.e.*, until the domestic agricultural equipment market goes into its next cyclical decline. The negative factors likely to affect the company's construction equipment and overseas operations in both fiscal 1981 and 1982 suggest that management will be concerned with protecting total corporate earnings and cash flow. To do so entails maintaining effective capacity utilization at the Harvester works without undertaking either the cost burdens or the other disruptions entailed in bringing out a major new product."

If that sounds like bad news for Deere, read on: "The delay will benefit Deere in that it will provide sufficient time to improve its existing rotary combine prototype and gather more data on customer acceptance, leaving its competitors to struggle with problems of wet harvesting seasons and design considerations such as rock ingestion....

"In the post-1984 period, we believe that Deere and perhaps Allis-Chalmers will adopt what we consider to be the optimal strategy—marketing the combination of rotary combines in the larger size classifications and conventional machines in the lower classifications."

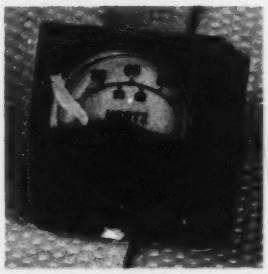
Major conclusion. The bottom line of the Bernstein research report is that Deere's per-share earnings should rise to $8.50 in fiscal 1984 (vs. $4.90 in 1979 and $3.59 in 1980) for a peak-to-peak growth rate of about 12 per cent annually.

On the way to this position, says the report, Deere's overseas operations will return to profitability, there will be above-average earnings growth in North American construction and industrial product lines, and below-average earnings growth in North American farm equipment operations, especially combines, implements and

(Continued on page 50)

I&T WHAT'S NEW

Frequency Meter Is Portable, Economical



Electro Specialties, Inc. has introduced its model 12-60 portable frequency meter with a range of 55 to 65Hz over an 80- to 150-volt scale. The 2-in.-cube meter fits into any 120-volt outlet and has an ABS plastic case that protects it from shocks and jolts.

Circle (135) on Reply Card

Wider Rakes From Avco Provide Smoother Action

Two 9½-foot rakes from Avco New Idea are designed with suspended baskets in order to reduce bounce, increase raking efficiency and keep teeth from breaking. The rakes feature sealed bar bearings, offset drive wheels and positive belt drive. The left-hand version, model 406, and right hand version, model 407, can be teamed with a model 410 dual hitch for double windrowing.

Circle (136) on Reply Card

Hedlund Scavenger Throws Manure Up To 50 Feet

Hedlund's Scavenger manure spreader uses a series of staggered 7- by 10-in. paddles, turning at a slow speed, to break up solids and move material forward to the expeller. Because of this design, the Scavenger

can spread all types of manure from liquid to partially frozen. The 18- by 30-in. reel expeller, mounted on the side of the V-shaped tank, turns at 750 rpm to chop material finer and throw it as far as 50 ft. Four models are available with struck level capacities from 167 to 282 bu.

Circle (137) on Reply Card

(Continued on page 25)

certain ancillary product lines.

The study is loaded with many additional, and fascinating, tabular estimates concerning such stuff as operating profit margins of specific factories, net sales of Yanmar-sourced tractors, consumer product revenue, etc., but space here is limited.

Besides, Bernstein & Co. is hoping to sell copies of the report at $300 each. If you're interested, contact them at 717 Fifth Ave., New York, NY 10022. (Telephone 212/486-6780 and talk to Kevin Brine.)

How does Deere & Co. feel about the Bernstein study? I&T asked if the company had any remarks to make about it, but a spokesman informed us that Deere policy is not to comment on such reports.

Meeting Other Dealers: Atlanta's Your Best Bet

Probably nowhere else can you find a greater concentration of dealers with smarts than you can at annual conventions of the National Farm & Power Equipment Dealers Assn. That doesn't necessarily mean you'll find only the biggest volume dealers, though many of them show up at NFPEDA. It means that the dealers there are generally in search of the latest in retail management thinking, and they generally find it by talking with colleagues from all over North America.

According to Jim Whitfield, NFPEDA convention director, there will be three workshops aimed at providing dealership management help when NFPEDA convenes Aug. 16-19 at the Hilton Hotel in Atlanta, Ga. They are: (1) TI 990 and Hybrid Parts Inventory System and Accounting, by James Arnold, the association's director of management services; (2) Product Merchandising and Promotional Display, by James Gray of the National Retail Hardware Assn.; (3) How the LIFO Inventory System Can Work for You, by W. J. De Filipps, CPA, consultant.

Other programmed business will include talks by John Phillips (Lilliston), chairman of the FIEI; Lloyd Summa, current NFPEDA president; James Kilpatrick, the eloquent syndicated columnist; Charlie Plumb, former Vietnam War P.O.W.; and John Mullenholz, NFPEDA's new Washington legislative counsel.

NFPEDA provides the only family-oriented convention in the industry. Since the mid-1960s, dealers have been bringing the wife and kids to this event to combine some pleasure with business. There are always outings available for the family—this time, for example, there's an all-day adventure at Stone Mountain—and parties for young people and smaller children, in addition to a banquet for the entire group that includes entertainment.

Another bonus for the attending dealer: The major companies of the industry have receptions and/or dinners for their dealers, and the top marketing brass of each company are on hand. You exchange views and ask questions. Of course, if the top marketing executives don't show up, leaving the matter to secondary echelons, maybe that answers one of your questions.

If you can't make it this August, maybe the location of the 1982 convention will interest you: Honolulu.

Major Introduction By International Harvester?

On the cover of International Harvester's summary of its annual stockholders' meeting (not to be confused with their annual report), we saw an interesting teaser: "IH will introduce 51 new products in 1981."

President Warren Hayford's comments inside touch on some already-introduced items such as the 786 tractor and the Earth Metal tillage line. Then he adds: "And during 1981, the Ag Equipment Group will introduce a major advancement in *new tractor models* that will substantially increase the productivity of farmers throughout the world." *(Italics ours.)*

Who Are the Big Spenders In Farm Equipment Advertising?

Every year, *Agri Marketing*, a specialized publication for agribusiness advertising and marketing executives, reports the results of research carried out by Agricom, St. Joseph, Mo., which estimates how much money was spent on advertising in agricultural print media to reach farmers, and by whom.

In 1980, who were the big 10? Most of them were chemical companies, led by Monsanto, then Elanco, American Cyanamid, Ciba-Geigy, Stauffer, Union Carbide and DuPont. Among machinery companies were Deere—third, spending $4.3 million—and IH—fifth, at $3.8 million, probably including trucks. Ford Motor was ninth, spending $2.57 million, presumably divided between tractors, autos and trucks.

Other farm equipment companies among the leaders:

Sperry New Holland—11th, $2.2 million; J I Case—21st, $1.38 million; Massey-Ferguson—23rd, $1.28 million; Allis-Chalmers—25th, $1.20 million; White Farm—29th, $1.03 million; Hesston—35th, $789,245; Avco New Idea—42nd, $686,304; Gehl—53rd, $505,750; Kubota—56th, $472,369; Long—58th, $463,952; Bush Hog—68th, $394,066; Caterpillar—73rd, $352,452; Kewanee—83rd, $298,559; Farmhand—95th, $268,121; Deutz—98th, $258,641; Vermeer—100th, $247,643; McDonough—$225,102; Versatile—127th, $190,831; Steiger—136th, $174,242; Brillion Iron Works—140th, $169,077; Lilliston—144th, $164,635.